



Legal Environment and SACCOS Financial Performance in Mbeya, Tanzania: Mediated by Corporate Governance

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Abstract

The study was conducted in the Mbeya region of Tanzania, analyzing how corporate governance and the legal environment affected the financial performance of Savings and Credit Cooperative Societies (SACCOS), with a focus on the mediating role of corporate governance. A quantitative survey utilizing a census of 83 active SACCOS collected primary data via structured questionnaires. The study reveals that corporate governance has a substantial and positive direct effect on the financial performance of SACCOS ($\beta = 0.966$, $p < 0.001$). Moreover, the legal environment has a strong positive influence on corporate governance itself ($\beta = 0.977$, $p < 0.001$). Remarkably, the direct link between the legal environment and financial performance is negative and significant ($\beta = -0.098$, $p = 0.027$). Nevertheless, corporate governance fully mediates the relationship between the legal environment and financial performance, resulting in a strong positive indirect effect of the legal environment on performance ($\beta = 0.944$, $p < 0.001$). This study underscores the critical importance of robust corporate governance for financial viability of SACCOS, particularly in challenging legal environments. Policy makers and SACCOS management should prioritize strengthening governance frameworks to enhance financial performance and mitigate legislative challenges in Tanzania and all other Sub-Saharan African nations, where the literature mentions such challenges. This study empirically enriches institutional theory by providing evidence of these relationships within African SACCOS, offering valuable theoretical and practical insights.

Subject Areas

Sociology

Keywords

Legal Environment, Corporate Governance, Financial Performance, SACCOS, Institutional Theory

1. Introduction

Savings and Credit Cooperative Societies (SACCOS) are freely formed and democratically member-governed cooperative enterprises aimed at providing convenient and affordable financial services to members [1] [2]. Financial inclusion of the groups not wheeled in the mainstream of the banking community is the core purpose of Savings and Credit Cooperative Societies [1] [2]. The first Savings and Credit Cooperative Society in Tanzania was formed in the town of Moshi in 1938 and named the “Ismailia Group” [3]. Since then, SACCOS have become the most popular experience in the country as the most efficient way to eradicate poverty through financial inclusion [4] [5]. Presently, there are 6178 SACCOS registered in Tanzania, of which only 2034 are operative and the remaining are dead and non-traceable [5]-[7].

The story of SACCOS financial performance in Tanzania is not appealing [1] [4]. This is the same case for other Sub-Saharan African nations [2] [8]. Financial performance is a term used in reference to the capacity of the firm to be efficient when it regulates and manages its resources, responds appropriately to environmental threats and opportunities that would guarantee its survival, and sustainably improve profit margins sustainably [4] [9]. The financial performance of a firm is usually estimated by indicators such as the capital adequacy ratio, liquidity ratio, leverage ratio, solvency ratio, and profitability ratio [9] [10]. The growth of SACCOS in Tanzania since 2010 has seen little progress, with a large number of SACCOS closing down (dormant and untraceable), with approximately 60 percent of newly registered SACCOS going down into a dormant state, incurring huge losses by SACCOS members according to Tanzania Cooperative Development Commission (TCDC) [6]. In addition, empirical data also bear witness to the impoverished financial performance of SACCOS in Tanzania because the financial leverage ratio is 17 percent, which is below 25 percent, as stipulated in Section 48 of the Tanzania SACCOS Regulation of 2019; the average capital-asset ratio is 9 percent, which is below 10 percent, as stipulated in Saccos Societies Regulatory Authority (SASRA); and Return on Equity (ROE) is lower than that of a T-bill [4] [8]. The reasons for the poor financial performance of SACCOS in most Sub-Saharan African countries include the legal framework and poor corporate governance practices [2] [11].

The legal environment is defined as the framework of laws, regulations, rules, and policies, whose issuance and approval occur at various levels of government, thereby affecting the operations of the firm, either directly or indirectly [12] [13]. The Tanzania legal environment constitutes the institutions mandated by several

registrations that govern the SACCOS in the Tanzania Mainland, as follows: The Tanzania Cooperative Development Commission (TCDC) is responsible for supervising and developing cooperative activities across the country, a mandate conferred by the Cooperative Societies Act No. 6 of 2013 [14]. For financial oversight, the Cooperative Audit and Supervision Corporation (COASCO) audits all cooperative financial books, as established by Cooperative Audit and Supervision Act No. 15 of 1982 [15].

Furthermore, SACCOS in the country are regulated and licensed by the TCDC, operating under powers delegated by the Bank of Tanzania (BoT) through the Microfinance Act of 2018 [16]. Finally, the Tanzania Revenue Authority (TRA) was mandated by the Income Tax Act [CAP. 332 RE 2019] to impose a 30% corporate tax on cooperative profits [5] [17]-[19]. Tanzania, like many nations in Sub-Saharan Africa, faces significant challenges in its legal and regulatory environment for businesses. The World Bank's Doing Business 2020 report highlighted these difficulties, with Tanzania ranking poorly in various indicators that assess the ease of doing business [13]. This challenging environment is characterized by several key issues. For instance, businesses frequently encounter subjective business regulations, which can lead to unpredictability and increased operational risk. Furthermore, constantly fluctuating taxation policies and regulations create an unstable landscape for long-term planning and investment [13]. Ambiguity often extends to taxation evaluation, making it difficult for firms to forecast their tax liabilities accurately. Compounding these issues is a convoluted tax system, which adds layers of complexity to compliance and administrative burdens [13]. The legal environment is a variable of institutional theory that has rarely been tested, but it is argued to be related to financial performance [2] [20] [21].

Corporate governance, on the other hand, is a structural process that involves a direction to the business conduct of a company in order to create value for the company to the maximum, so that the lasting value of shareholders can be boosted in accordance with the interests of other stakeholders and third parties [22]. Even the variable of Corporate governance, which is another under-tested aspect of institutional theory, is not only postulated theoretically to be positively related to financial performance but also has the potential to be a strong mediator of other variables affecting the financial performance of an institution [20] [23]-[25]. Despite the plea made by [20] [26] [27], further research is conducted on institutional theory with regard to the legal environment and corporate governance in their contribution to organizational performance. There is hardly any empirical support for the influence of the legal environment and corporate governance on financial performance. This study examines the research gap regarding the possibility that corporate governance mediates the relationship between SACCOS' financial performance and the legal environment. It has provided necessary empirical evidence on how the firm factors of the legal environment and corporate governance affect the financial performance of SACCOS, offering detailed facts and recommendations on how policymakers need to change or develop new policies

to save the growing number of registered SACCOS that end up in failure, leading to significant losses for SACCOS and the country's economy, and to develop a solid knowledge base in the field. Institutional theory continues to grow and evolve in various disciplines. Therefore, this empirical research has assisted in testing the effectiveness of the theory in solving social issues, leading to the discovery of new patterns and insights that could not have been predicted or anticipated, which could perhaps be a source of new conceptualizations and theoretical refinements.

2. Context and Problem Statement

Globally, microfinance institutions such as SACCOS have been acknowledged for their significant contribution to poverty eradication and have been adopted by many countries as a way to reach the excluded poor population from the banking mainstream [7] [28] [29]. The situation was similar in Tanzania, where the acceptance rate of SACCOS in the country was high; from 2005 to 2008, the number of SACCOS almost tripled [30]-[33]. Tanzania has experienced modest development in the SACCOS since 2010. Many SACCOS have not been able to sustain their businesses, and more than 60 percent of SACCOS registered die prematurely, leaving their members with a lot of losses [3]-[7]. Of the SACCOS that have been registered (6178), 2034 are inactive; the remaining numbers are those that are dormant and inaccessible [6]. In the Tanzania SACCOS Regulation of 2019, the financial leverage ratio is 25 percent, whereas the empirical finding suggests that Tanzanian SACCOS were doing poorly in relation to their financial performance. Its average idea-to-asset ratio was 9 percent less than the 10 percent expected by SASRA, and its equity profit (ROE) was low relative to that of the treasury bills in Tanzania [4] [8] [34].

The challenging legal environment and poor corporate governance practices undergird this intense underperformance of most SACCOS in Sub-Saharan Africa, some scholar suggests [2] [11]. This study cannot be understood in isolation from the institutional context in which these SACCOS operate.

The legal environment: scholars in Sub-Saharan Africa links the worst legal environment among other factors to worsen financial performance in majority of SACCOS [2] [20] [21] [35]-[38]. Issues like complicated Tax structure, high tax rates and numerous compliance requirement under multiple legal laws [6] [18] [39]. The World Bank reports categorize the Tanzanian legal environment as one of the most unfriendly businesses [13]. Some of the legal and regulatory issues mentioned by World Bank Report are tax assessment uncertainty, which has an important role to play, the complicated system of taxation, and unreasonable regulations for corporations, along with frequent alterations in tax laws and regulations [13]. The situation is similar to most Sub-Saharan African nations [2] [20]. Though the variable legal environment was theorised by institutional theory scholars [20] [26] [40], to have a relationship with firm's financial performance; the empirical evidence connecting Institutional Theory to the financial performance of businesses, particularly within the African context are scarce.

Corporate governance is highly linked by widespread financial instability and poor financial performance in emerging economies [2]. Issues like poor governance structures, characterized by lack of member oversight, weak internal controls, management incompetence and opaque decision-making directly catalyze poor financial performance leading to institutional failure [2] [11]. For example, the studies by Towo *et al.* in 2022 [4], indicated that SACCOS with ineffective audit committees and boards exhibit higher delinquency rates, operational inefficiencies and poor asset quality [4]. Furthermore, WOCCU report in 2020 indicated that the absence of good governance function and robust risk management frameworks leaves SACCOS vulnerable to fraud and financial mismanagement, directly depressing profitability and solvency ratios [8]. This under-tested variable from institutional theory is not only postulated theoretically to be positively related to financial performance but also has the potential to be a strong mediator of other variables affecting the financial performance of an institution [20] [23]-[25].

The aim of this study was to investigate the impact of the legal environment on the financial performance of Tanzanian SACCOS and determine whether corporate governance could mediate the relationship. These were to test the direct association between financial performance and the legal environment of SACCOS, the direct association between financial performance of SACCOS and corporate governance, and lastly, the mediating role of corporate governance on the relationship between the financial performance of SACCOS and the legal environment within the region of Mbeya in Tanzania.

3. Theoretical Framework and Hypothesis Development

Institutional theory is John Meyer and Brian Rowan's sociological and structural theoretical work in the late 1970s [41]. The theory hypothesizes a method through which an organization is said to fit and find stability by accepting a number of elements of the institutional environment, as pioneers put it [41]. As hypothesized, the firm is affected by state, social, and legal environmental aspects, both global and local, to which that particular firm is affiliated, and it is said that the firm aims to seek a means to adapt to it and survive [41]. The theory was broadened and developed over the past decades when new spheres and concepts of legality, ethics, legitimacy, and productivity were proposed to the theory [26] [42]. Even now, the theory is still being further broadened, and its sphere has been extended to other domains of decision optimization, which can now be appreciated as an authoritative line of investigation in the research on marketing, business, international investment, and entrepreneurship [26] [42]-[45]. Moreover, the group of variables in this theory has been extended to the concepts of legitimacy, efficiency, compliance with laws, and corporate governance of the given environment [26] [42]-[45]. The variables formulated by institutional theory were subjected to the experiment as legal environment and cooperative governance in relation to the financial performance of the enterprises of SACCOS.

The strength of institutional theory is that as long as the company practices the

rules of the legal environment and improves its governance, it can gain legitimacy and credibility, and hence, it improves financial performance. On the other hand, the drawback of this theory is that conformity to institutional regulation may require a significant amount of investment and may not result in immediate financial benefits [26] [42]-[45].

3.1. Theoretical Gap

Institutional theory's concepts of the legal environment and cooperative governance are less researched variables, especially concerning their effect on SAC-COS's financial performance, despite researchers proposing that these variables have a major impact of these variables [20] [21] [46]. Second, this research also addresses the territorial borders of institutional theory, which proposed investigating the future of institutional theory, including studying the variables of the legal environment and governance as factors affecting organizational performance [27]. It is necessary to explicitly establish and understand the relationships between a firm's financial performance and the variables of the legal environment and cooperative governance, which this research has determined. At the African level, there are virtually no publications on social institution theories relative to this continent, thus highlighting the necessity of expanding inquiry to produce and construct the theory with extended empirical studies from this region of the globe [20] [46].

3.2. Financial Performance and Legal Environment

Borio and Drehmann acknowledge that there may not be enough innovation and competition in the banking industry after arguing that too much regulation (legal environment) may hamper both innovation and competition. Such excessive regulation has adverse impacts on bank performance [47]. Gomez employed a large sample size (29,839 companies) from 2005 to 2014 and evaluated the role of the legislative environment on the financial success of firms, in particular, sales growth [48]. By using econometric methods of analysis of time-series data (panel data analysis), the research found a statistically significant and positive influence of the legal setting on firms' financial performance (sales growth). The potential limitation of this study is that the definition and measurement of the legal environment established by the study have not been stipulated, and there is also a high diversity of the sample with the inclusion of MFIs that represent diverse nations and economic contexts. Arias assessed the effects of legal and institutional challenges on the performance of banking systems in 52 countries over 10 years between 2005 and 2014 [49]. Using descriptive design in combination with correlation procedures and panel data regression, the researchers correlated banking performance (as gauged by Net Interest Margin and Return on Asset (ROA) in nations with different legal systems. Remarkably, they detected a strong positive correlation; that is, environments with good legal settings correlated with good performance by banks. However, there is a possible limitation to this study. The sample size (52

banking systems) used in the study may be deemed small in order to arrive at generalized findings since 31 of the 52 systems are emerging economies and the other 21 are advanced. Quayes and Joseph's study was based on the idea of determining how the legal system is involved in the performance of microfinance institutions in terms of OSS and ROA [50]. Applying unbalanced panel data of 1272 microfinance institutions across 16 years in developing and developed nations, they discovered that the financial performance of MFI working under codified legal codes, which is clear, was better than MFI under a common law system (based on precedence and judicial interpretation). This implies that legal frameworks have the potential to influence the financial performance. Nonetheless, such extreme multiplicity of the sample (in that MFIs of many different countries and situations are involved) creates its own heterogeneity.

Despite the fact that there is not enough empirical research in Africa, specifically on SACCOS, to offer solid evidence of the link between the legal environment and SACCOS financial performance, the fourth hypothesis is proposed as follows:

H₄: The legal environment (LE) positively influences the financial performance (FP) of SACCOS in Tanzania.

3.3. Financial Performance and Corporate Governance

Singh and Rastogi examined the association between corporate governance and financial performance in small and medium-sized businesses (SMEs) listed on the Bombay Stock Exchange (BSE) in India was examined by Singh and Rastogi [11]. The analysis was about the disclosure of information, which is a measure of corporate governance, and likewise on its implication to the financial health of the corporation. They used a correlational research design and a sample size of 88 to ascertain the statistical significance of the relationship by employing regression analysis. Interestingly, the analysis shows that information disclosure has a negative relationship with financial performance among Indian SMEs. This implies that stringent disclosure requirements may expose a company to greater costs and regulatory requirements that are likely to hamper financial performance. A weakness of this study is that it is inductive since it has concentrated too closely on the concept of disclosure of information as an indicator of corporate governance. Other important factors, namely, the ownership structure and board composition nature of leadership, have been overlooked. This makes it impossible to conduct a more thorough investigation into how corporate governance standards affect SMEs' financial performance.

Hermawan examined the relationship between good corporate governance, corporate social responsibility, and intellectual capital on Indonesian banks' financial performance [51]. They used 15 banks listed on the Indonesian Stock Exchange to examine their study and used linear regression as their analytical tool. The survey results indicate that although proper corporate governance may tend to positively affect financial performance, more bureaucracies and red tape in such sys-

tems can impede operational challenges and negatively affect financial performance. Temba examined whether corporate governance has any influence on the financial situation of commercial Tanzanian banks [52]. Their study examined how key financial performance indicators, including asset quality, profitability, liquidity, and capital sufficiency, are affected by corporate governance procedures such as oversight and board composition. Quality corporate governance, particularly in the form of an effective board of directors and oversight, has a favorable effect on enhanced financial performance in terms of increased profitability and high-quality assets, according to researchers' findings. However, they also discovered a negative correlation between the effective use of equity and liquidity and some governance measures, such as board gender diversity and over boarding. The study conducted by Boachie examines the interaction between Ghanaian banks' financial performance and corporate practices [53]. The research study of 23 banks was conducted on a correlational cross-sectional rather than regression analysis because it helps to establish the cause and effects of variables. The study established that there was a positive relationship between the researched constructs (financial performance and corporate governance) based on the ROA and OSS metrics for financial performance, the audit committee's independence, the presence of non-executive directors, and the qualities of the Chief Executive Officer (CEO) for corporate governance. Nonetheless, there are limits: the generalizability issue arises due to the fairly small sample size of 23 banks compared to the whole banking sector in Ghana. In addition, the cross-sectional characteristics of the data implied that the direction of the association could not be determined by the research. Alobari examined the connection between Nigerian microfinance institutions' financial performance and corporate governance [54]. They conducted a 13-year analysis of 33 microfinance institutions between 2005 and 2017, using OLS analysis and correlational design. They find that financial success and corporate governance are significantly and positively correlated. However, the small sample size of 33 banks may limit the usefulness of this study for generalization purposes. Based on the aforementioned points found in the literature, the first hypothesis is proposed as follows:

H₂: Corporate governance (CG) positively influences the financial performance (FP) of SACCOS in Tanzania.

3.4. Corporate Governance as Mediating Variable between SACCOS Financial Performance and Legal Environment Relationship

Existing literature consistently highlights that corporate governance (CG) plays a significant role in influencing the relationships among various organizational factors and financial performance. For instance, Earnest and Sofian demonstrated the moderating influence of corporate governance on the relationship between a firm's financial performance and intellectual capital, suggesting that effective CG can amplify how intangible assets translate into financial success [23]. This view

is supported by the empirical findings of a recent study conducted by Ngatno *et al.* [24], whose moderation analysis specifically identified that strong corporate governance practices can strengthen the association between a firm's financial performance and its capital structure in a strong way. This means that organizations with effective governance have better capabilities to exploit their financing decisions to generate better financial results.

Besides these defined spheres, corporate governance also enhances several other areas. According to Agyemang *et al.*'s study conducted on listed Ghanaian firms, corporate governance enhances the association between market returns on stock and accounting information [25]. This indicates that good governance can help financial information be viewed positively in the market, thus determining investors' confidence and stock value. Subsequent research studies, including the work by Aguilera & Jackson and Daily *et al.*, highlighted the role of governance mechanisms in influencing the output of organizations in addressing internal capacities and external forces that translate to overall performance [55] [56].

As much as these findings are common in different settings and variables, they all indicate that corporate governance usually serves as a significant intervening mechanism, intensifying or moderating the effect of other internal and external factors in determining the financial success of a firm. This evidence provides a good reason to examine the mediating or moderating role of corporate governance within the framework of other influencers of financial performance. Based on these strong arguments in the literature, the third hypothesis is proposed to learn more about this dynamic (see **Figure 1**).

H₃: Corporate governance (CG) mediates the association between SACCOS financial performance (FP) and legal environment (LE) in Tanzania.

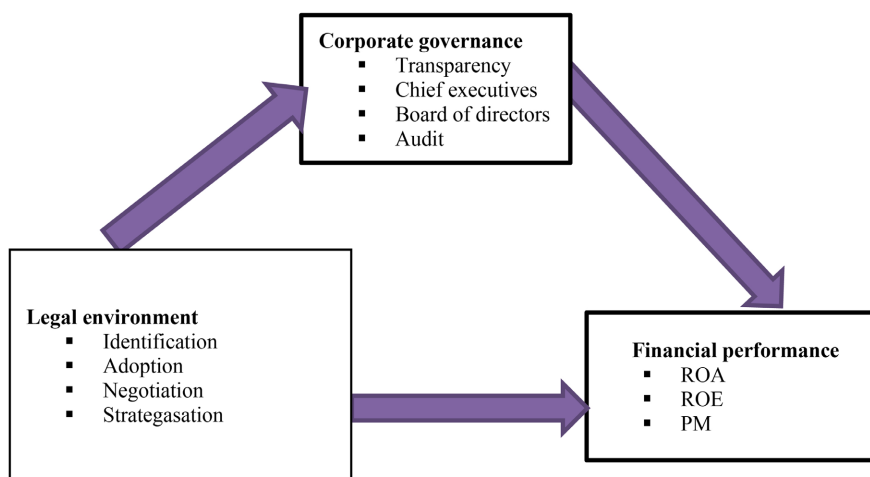


Figure 1. Conceptual model.

4. Methodology

4.1. Philosophy and Approach of the Study

The study employs a rigorous methodology rooted in a positivist philosophy and

a deductive approach to specifically examine the role of corporate governance as a mediator in the relationship between the Tanzania regulatory environment's impact on the financial performance of SACCOS. It will also use explanatory research design in which census survey design will be implemented in all active SACCOS, hence providing a powerful framework for defining a relationship between key variables and their significance to the financial outcome means that the study employs objective reality and attempts to experimentally prove the given theory (Institutional Theory), formulating hypotheses, and testing it empirically [57] [58]. This study proposes or formulates theoretical models regarding the SACCOS financial performance and legal environment relationship based on quantitative statistics [59].

4.2. Research Design and Strategy

A research design was adopted to determine the causal relationships between different factors and SACCOS financial performance [60]. A quantitative survey was used as a research strategy because it is an effective approach for gathering general information; thus, it was considered sufficient to draw conclusions about all active SACCOS in Mbeya [58]. Structured questionnaires were used to collect primary data and were translated into Swahili and English to gain a wider understanding. The drop-and-pick method was convenient in terms of high response levels and ease of use by the participants [61] [62]. A five-point Likert scale was adopted to quantify the responses, which measured the attitudes and perceptions of the study variables.

4.3. Sampling and Data Collection

The study focused on the Mbeya region because of its large population and a significant number of dormant SACCOS, highlighting a research gap concerning their financial performance (TCDC, 2023) [6]. A census method was employed to survey all 105 active SACCOS in the region to eliminate sampling bias and ensure an accurate representation of the population [63]. This study achieved a 100% response rate for 88 eligible SACCOS in Mbeya, excluding 17 new SACCOS without financial data. Missing values were handled using SmartPLS means replacement [64]. To guarantee the quality of the data, outliers based on the SPSS Bootstrap procedures were discarded, and 83 responses remained, which was enough to follow the rule of ten times PLS-SEM analysis [64]. Three types of variables were considered in this study: independent, dependent, and mediating. The dependent variable was financial performance, which was assessed through return on equity and assets [65]. The legal environment obtained by institutional theory is an independent variable [66]. The mediating factor was corporate governance, which included association-dependent and independent variables [66]. The variables based on Institution Theory have an ordinal level of measurement using a Likert scale [60].

4.4. Data Analysis Techniques

PLS-SEM was used to analyze data because of its capacity to manage intricate models; accommodate non-normal, categorical, and ordinal data; and manage smaller sample sizes and multicollinearity, making it superior to Covariance-Based SEM (CB-SEM) for this research [64] [67] [68]. Additionally, PLS-SEM makes it easier to analyze mediation effects, offering flexibility in exploring theoretical relationships [69]. This study recorded a full response to 88 eligible SACCOS in the district of Mbeya, excluding 17 new SACCOS that lacked financial information. SmartPLS was used to replace the missing values through mean replacement [64]. The outliers were initially spotted through the SPSS Bootstrap procedures and eliminated to guarantee the accuracy of the data, and 83 responses were considered valid, which adheres to the principles of the PLS-SEM analysis and fulfills the requirements of the so-called ten-times rule [64] [68]. Data were analyzed with the help of SmartPLS 4 software, which allows easy work with the interface and expands the PLS-SEM modeling processes with new data import opportunities, great performance on such operations as bootstrapping, and support of complex mediation models [70] [71]. The data analysis process considered several significant processes. First, missing values and outliers were dealt with in data cleaning, which automatically substituted the missing values with the mean using SmartPLS [64]. The following assumptions were then checked: linearity, normality, multicollinearity (with Variance Inflation Factor (VIF) values less than 5), and heteroscedasticity (with HTMT values less than 0.9) to guarantee data quality and strength, although such assumptions are less demanding in PLS-SEM [64] [67] [72]. After data completion, the measurement model test assessed the extent to which the indicators represented underlying constructs through factor loadings, Cronbach's alpha, and convergent and discriminant validity tests [64] [73]. Then, the structural model test was applied to estimate associations between latent constructs, and bootstrapping was used to calculate path coefficients, T-statistics, and *p*-values [64]. Finally, the ability to predict (PLS-Predict) and explain (R-square) structural model was determined. A full structural model was validated, including cross-factor loading (>0.7), SRMR (<0.9), path coefficient *p*-value (<0.05), AVE (>0.5), Goodness of Fit (GoF) index (>0.1), and exact model fit *d*_ULS (<0.95), to determine The Goodness of Fit (GoF) [64] [67] [74]. To ensure that the data would be analyzed comprehensively, a comprehensive approach to the interpretation of SEM-PLS indices, such as SRMR, Cronbach's alpha, AVE, Fornell-Larcker, VIF measures of the measurement model, and T-value, Beta, and R-square, GoF, and Q-square measures of the structural model. All of the hypotheses were accepted when the T-score of a path coefficient was greater than 1.96 (two-tailed) and the *p*-value was less than 0.05 [75].

4.5. Variables and Measurement

This study systematically examines the influence of legislative environmental factors on the financial performance of SACCOS. To achieve this, the study employed

three main types of variables: an independent variable, a mediating variable, and a dependent variable, each meticulously defined and measured based on established theoretical foundations and empirical studies.

Legal Environment served as the independent variable in this study. As a variable based on institutional theory, it is evaluated by a set of indicators with modifications based on Mallett's recommendation [66]. These indicators will help formulate questionnaire and attempts to capture different aspects of the interaction and perception of SACCOS toward legal environment in Tanzania.

In particular, they also include Identification-interpretation: aimed to measure the SACCOS management's awareness, monitoring, and understanding of the regulatory landscape. The indicator measures the critical input for accurate interpretation, the active receipt of updates from bodies like the TCDC or COASCO, which is essential in Tanzania's evolving regulatory environment [66] [76]. Strategisation: This indicator was used measured the proactive planning, resource allocation, and systematic activities undertaken in day-to-day operation to ensure compliance to legal laws. Strategisation was about assessing the strategic commitment of material resources (financial, human, technological) by SACCOS management deemed to meeting regulatory demands [5] [66] [77]. Negotiation: this context does not refer to bargaining over a contract. Instead, it is a theoretical construct describing how SACCOS interacts with its legal environment, through interpretation of rules, regulation and laws and creating smooth relationship with regulatory authorities in the country. It's the process by which SACCOS "negotiates" its relationship with the law. Adaptation: the indicator measures the extent resource adjustments and operational changes and in the firm to make sure legal and regulatory requirements are implemented [66] [78]. The indicator measures beyond "Strategisation" and "Negotiation" looking on tangible resource used to meet legal compliance [66] [78]. All of these were rated on a 5-point Likert scale ranging from strongly disagree to strongly agree.

Corporate Governance is utilized as the mediating variable, which is also derived from the institutional theory. This variable is important to determine how a legal environment and its effect on financial performance may be directed or modified through internal governance structures. Its measurement measures include major spheres of governance that have been outlined in previous studies, such as the Board of Directors, Chief Executive Officers (CEOs), audit committees, and transparency [79]-[81]. In the case of the Board of Directors, the questions are used to access transparency concerning the appointment of members of the board and allocation of time to the duties. Regarding CEOs, their interest lies in their interaction with employees. Independence and risk assurance are used to measure the effectiveness of the Audit Committee. Finally, Transparency indicators attempt to examine what it means to be nimble and truthful when reporting conflicts of interest and the disclosure of information to shareholders. These predictors were measured as five-point Likert scale.

Finally, in this study, financial performance was the dependent variable, reflect-

ing the ultimate outcomes of SACCOS success. In line with the general financial analysis in previous studies, Profit Margin (PM), Return on Assets (ROA), and Return on Equity (ROE) are the measurement indicators of its measurements [65] [82]-[84]. All these measurable variables provide a detailed picture of the financial standing and effectiveness of the SACCOS. As in the case of the other variables, the answers to these financial performance tests were measured on a 5-point Likert scale. This study offers strong empirical findings on the relationship among these variables by defining and measuring them precisely in light of SACCOS in Tanzania.

5. Findings

This section presents the findings of the project research in a methodical manner. Information is presented in a clear manner (tables, figures, and diagrams) and arranged in such a way that it can be interpreted correctly. It does not provide too many generalizations. The analysis of results goes into the details of the results and how the data is compared with the purposes of the study and the theoretical framework of the research, stating whether it proved or disapproved of the hypotheses. Surprising inferences have been discussed for possible reasons. Finally, a critical comparison with the available literature is provided.

5.1. Study Demographic Information

This survey analyzed 83 SACCOS manager responses in Tanzania's Mbeya region. The sample comprised a slight male majority (59%), with ages skewed towards middle age (49% 31 - 45 years). Managers were generally well educated, with most holding diplomas (57%) or bachelor's degrees (41%). Experience levels were split, with 58% having less than five years in their current SACCOS. The SACCOS themselves varied in age, with a significant proportion (37%) established between 10 - 20 years ago, indicating a mix of mature and newer institutions. These demographic data provide a valuable context for understanding the financial performance of SACCOS in the region. **Figure 2** below summarizes the demographic information of the study.

5.2. Preparation of Data for Analysis

This passage outlines the meticulous data preparation and validation process for a study on SACCOS in Tanzania's Mbeya region. The data cleaning and coding steps were also run to guarantee the accuracy and consistency of the data, which were then entered into Microsoft Excel and subsequently into SmartPLS 4 to perform the analysis. The overall effect of the study was a 100 percent response rate of eligible SACCOS, since it managed to deliver 88 out of the 105 questionnaires. The difference between the 105 distributed and 88 responses is explained by the fact that 17 new SACCOS were formed and these were not included in the exercise. These were excluded from the analysis because they did not require year-end financial statements. Any data that were not filled or the unfilled answers

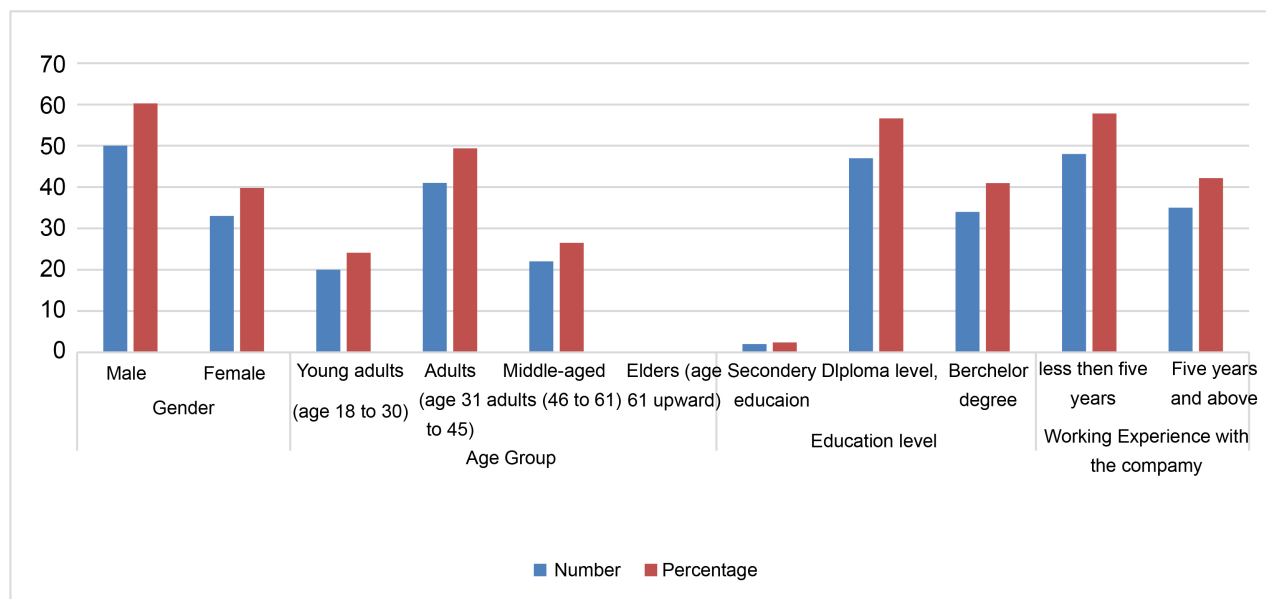


Figure 2. Demographic information.

were processed through mean imputation in SmartPLS, according to the guidelines of Hair *et al.* [64]. Extreme values marked as outliers by means of bootstrap processes and IBM SPSS Statistics 25 were removed, which allowed us to obtain 83 quality responses. This sample size met the requirement of a ten-times rule in PLS-SEM analysis of PLS-SEM [85]. Although PLS-SEM is a non-parametric procedure that does not strictly demand it, normality testing was performed, and the data were distributed within the corrected acceptable limits of skewness/kurtosis [86]. There was also support for linearity between latent variables, and the quadratic effects were insignificant [72]. Finally, homoscedasticity was satisfied, consistent variance of errors was secured, and since all the Variance Inflation Factor (VIF) scores were less than 10, there was no multicollinearity among the independent variables [87].

5.3. Model Fit Assessment

Rigorous evaluation of the PLS-SEM model's fit demonstrated strong consistency with the empirical data. It is important to remember that assessing model fit requires examining multiple criteria, not just a single measure [67] [74]. Our key metrics consistently indicated an excellent performance.

All observable indicators showed robust reliability, with factor loadings consistently surpassing the threshold of 0.700 (Figure 3). For instance, the factor loadings for Corporate Governance indicators included CG_1 (0.752), CG_2 (0.888), CG_3 (0.825), CG_4 (0.847), CG_5 (0.809), CG_6 (0.921), and CG_7 (0.891) (Figure 3). For Financial Performance, the loadings were FP_1: (0.954), FP_2: (0.982), and FP_3: (0.980) (Figure 3). Finally, the Legal Environment indicators showed strong loadings with LE_1: (0.841), LE_2: (0.863), LE_3: (0.816), LE_4: (0.860), LE_5: (0.860), LE_6: (0.913), and LE_7: (0.904) (Figure 3). These high loadings

confirmed that our measurement items effectively captured their respective underlying constructs [64].

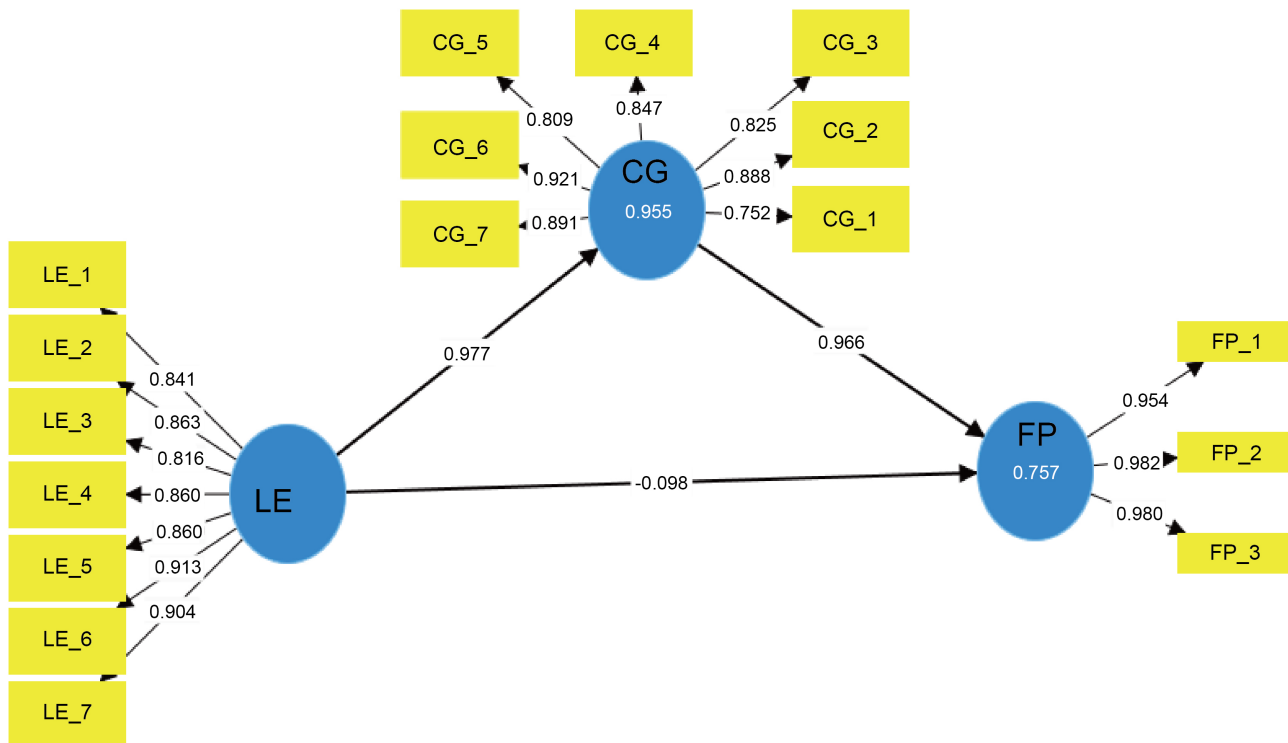


Figure 3. The measurement model analysis.

The R^2 values underscored the substantial explanatory power of the independent latent constructs on endogenous constructs. Corporate Governance achieved an R^2 of 0.955 (adjusted $R^2 = 0.954$), while Financial Performance achieved an R^2 of 0.757 (adjusted $R^2 = 0.751$) (Table 1). This indicates that the model explains a considerable amount of the variance in SACCOS' financial performance is explained by the model. Furthermore, all the Q^2 values were above zero, confirming the predictive relevance of the PLS-SEM model for the constructs (Figure 3). The overall Goodness of Fit (GoF) index (0.830) exceeded the recommended 0.36 cut-off value, signifying a strong global model fit [67] [74].

Table 1. PLS-SEM model's explanatory power.

Latent variables	R-square	R-square adjusted
CG	0.955	0.954
FP	0.757	0.751

Complementary measures, such as SRMR and d_{ULS} , further validated the model's good fit. Both the saturated and estimated models showed an SRMR of 0.1 and d_{ULS} values of 0.532, indicating an excellent fit (Table 2). In addition, the study assessed discriminant validity through cross-loadings, confirming that

each indicator loaded more strongly on its intended variable, thus ensuring the distinctiveness of our variables [71] [74].

Table 2. Saturated model and estimated model.

	Saturated model	Estimated model
SRMR	0.1	0.1
d_ULS	0.532	0.532

Finally, the direction and intensity of the links between the constructs are shown by the path coefficients. A strong positive path coefficient of 0.966 was observed from Corporate Governance (CG) to Financial Performance (FP) (**Figure 3**). Similarly, the path from Legal Environment (LE) to Corporate Governance (CG) showed an equally strong positive coefficient of 0.977. Interestingly, the direct path from the (LE) to Financial Performance (FP) was -0.098 , indicating a negligible negative direct effect (**Figure 3**). These path values, along with all the other fit indicators, confirm the overall robustness and explanatory power of our model [64].

5.4. Reliability and Validity Testing Results

As shown in **Table 3**, all constructs (CG, FP, and LE) exhibited excellent reliability across all three measures (Composite Reliability, Cronbach's Alpha and Composite Reliability). Cronbach's alpha scores for all three variables (CG: 0.935, FP: 0.931, LE: 0.924) were well above the generally considered excellent scores (0.90 threshold) (Lutfi *et al.*, 2023; Hair *et al.*, 2022). These measures also confirmed robust internal consistency. Values for all constructs ranging from 0.928 to 0.947, consistently above the acceptable level score of 0.70, the good threshold of 0.80, and even the excellent score of 0.90 [64] [72].

Table 3. Construct validity & reliability.

Latent variables	AVE (Average variance extracted)	rho_c (Composite reliability)	rho_a (Composite reliability)	Cronbach's alpha
CG	0.721	0.947	0.941	0.935
FP	0.915	0.941	0.931	0.931
LE	0.750	0.934	0.928	0.924

5.4.1. Convergent Validity

Furthermore, AVE values for all variables (CG: 0.721, FP: 0.915, LE: 0.750) were substantially above the recommended threshold of 0.50 (**Table 3**) [64] [88]. This proves that more than 50 percent of the variance in the indicators is explained by their respective latent constructs, thus confirming strong convergent validity. Overall, these results unequivocally demonstrated the high quality and trustworthiness of the measurement mode [64].

5.4.2. Discriminant Validity

As shown in **Table 4** and **Table 5**, AVE the square root of each variable is clearly higher than its correlation with any other construct. Corporate Governance (CG) is 0.849, greater than its correlations with FP (0.822) and LE (0.837). Financial Performance (FP) was 0.972, which was greater than its correlations with CG (0.822) and LE (0.846). The Legal Environment (LE) was 0.866. This is greater than its correlation with CG (0.837) and FP (0.846). These results confirm that discriminant validity is well established for all latent variables in the model, indicating that the constructs are distinct (**Table 5**) [64] [88].

Table 4. Fornell-Larcker test results.

Latent variables	CG	FP	LE
CG	0.849		
FP	0.822	0.957	
LE	0.837	0.846	0.866

Table 5. Discriminant validity established test results.

Latent variable	Square root of AVE	Correlations between the latent variables	Comparison	Conclusion for discriminant validity is established
Corporate Governance (CG)	for CG = 0.849	CG-FP = 0.822	0.849 > 0.822	Yes: (CG) is distinct from (FP)
		CG-LE = 0.837	0.849 > 0.837	Yes: (CG) is distinct from (LE)
Financial Performance (FP)	for FP = 0.957	FP-CG = 0.822	0.957 > 0.822	Yes: (FP) is distinct from (CG)
		FP-LE = 0.846	0.957 > 0.846	Yes: (FP) is distinct from (LE)
Legal Environment (LE)	for LE = 0.866	LE-CG = 0.837	0.866 > 0.837	Yes: (LE) is distinct from (CG)
		LE-FP = 0.846	0.866 > 0.846	Yes: (LE) is distinct from (FP)

Overall, as seen in **Tables 1-5**, the measuring model showed strong fitness, affirming the reliability and validity of the constructs (Corporate Governance, Financial Performance, and legal environment). High composite reliability and Cronbach's alpha scores (all above 0.90) indicate strong internal consistency (Hair *et al.*, 2022). Furthermore, excellent convergent validity was confirmed with all AVE values comfortably above 0.50 [64] [88]. Crucially, the Fornell-Larcker criterion establishes discriminant validity for all latent variables, ensuring the distinctiveness of the measures [88]. This rigorous assessment provides a robust foundation for subsequent structural model analyses.

5.5. PLS-SEM Structural Model Evaluation

The study's hypothesized relationships between variables were assessed through path models, developed using both structural models and measurement theory [67]. While structural theory explains the relationships between these variables, measurement theory defines how indicators measure the theoretical concepts. A two-phase methodology was adopted: first, validating the measurement theory (reliability and model fit) and then validating the structural theory, as faulty measures preclude accurate structural validation [67] [89].

5.6. Structural Model Collinearity

Table 6 presents VIF values for both the “outer model” (referring to the measurement model, where indicators relate to their respective constructs) and the “inner model” (referring to the structural model, where latent constructs relate to each other). Outer Model VIFs: CG_1 (2.235), LE_1 (1.671), FP_1 (2.061), CG_2 (2.879), LE_2 (1.195), FP_2 (2.05), CG_3 (1.477), LE_3 (2.777), FP_3 (1.454), CG_4 (2.761), LE_4 (1.250), CG_5 (2.572), LE_5 (1.120), CG_6 (1.167), LE_6 (2.749), CG_7 (2.847), LE_7 (1.012) (**Table 6**). All these values are well below the threshold of 5. This indicates that the indicators within each construct do not exhibit problematic levels of collinearity. This is good for the reliability and validity of the measurement model (Hair *et al.*, 2023). Inner model Structural Path VIFs) CG → FP (3.073), LE → CG (1), LE → FP (2.073), all of which are well below 5 (and even below 3). This indicates that the predictor constructs in the structural model (CG when predicting FP, LE when predicting CG, and LE when predicting FP) do not suffer from significant multicollinearity. As shown in **Table 6**, all VIF values were below the suggested threshold of 5, indicating minimal collinearity concerns within the structural model [67] [72] [89].

Table 6. Collinearity test results.

VIF outer model					
CG_1	2.235	LE_1	1.671	FP_1	3.061
CG_2	2.879	LE_2	1.195	FP_2	2.050
CG_3	1.477	LE_3	2.777	FP_3	1.454
CG_4	2.761	LE_4	1.250	VIF inner model	
CG_5	2.572	LE_5	1.120	CG -> FP	2.073
CG_6	1.167	LE_6	2.749	LE -> CG	1.000
CG_7	2.847	LE_7	1.012	LE -> FP	2.073

5.7. Relevance of Path Coefficients

The assessment of the path coefficients confirmed strong, statistically significant relationships within the structural model. Corporate governance (CG) profoundly and positively influences financial performance (FP) (Path Coefficient = 0.966, $p <$

0.001). Similarly, the legal environment (LE) exhibits an overwhelmingly strong and positive direct effect on corporate governance (Path Coefficient = 0.977, $p < 0.001$) (Table 7). While the direct path from the legal environment to financial performance was weakly negative (Path Coefficient = -0.098), its significance was established ($p = 0.027$) (Table 7). These path coefficients are well within the recommended range of -1 to $+1$, signifying robust and interpretable relationships crucial for understanding SACCOS' financial dynamics [67] [71] [89].

Table 7. Specific direct path.

Specific direct path					
Path	Path coefficients (Q ² -values)	Sample mean (M)	Standard deviation (STDEV)	T-statistics (O/STDEV)	p-values
CG -> FP	0.966	0.962	0.275	3.513	0.000
LE -> CG	0.977	0.977	0.004	263.045	0.000
LE -> FP	-0.098	-0.094	0.281	0.349	0.027

Table 8. PLS-SEM model's coefficient of determination.

Latent variables	R-square	R-square adjusted
CG	0.955	0.954
FP	0.757	0.751

Table 9. Specific indirect path.

Specific indirect path (mediation effect of corporate governance)					
Path	Path coefficients (Q ² -values)	Sample mean (M)	Standard deviation (STDEV)	T-statistics (O/STDEV)	p-values
LE -> CG -> FP	0.944	0.940	0.268	3.525	0.000

5.8. Predictive Power and Explanatory Power of the PLS-SEM Model

The model demonstrates substantial explanatory power for its endogenous latent variables, which are key indicators of its overall fitness. For Corporate Governance (CG), the R-squared value was 0.955 (adjusted R-squared = 0.954). This indicates that 95.5% of the variance in Corporate Governance is explained by the predictor(s) in the model (Table 8). Similarly, for Financial Performance (FP), the R-squared is 0.757 (adjusted R-squared = 0.751), meaning that 75.7% of its variance is accounted for by the predictor constructs (Table 8). These exceptionally high R-squared values confirm the model's strong ability to explain the variation in its dependent variables, aligning with standards for substantial explanatory power in PLS-SEM [67] [71] [72] [88].

Q² (Predictive Relevance) indicates how well the model can predict the data

points of the endogenous latent variable. It is a measure of the out-of-sample prediction power. A higher Q^2 indicates better predictive accuracy for that construct [68]. Criterion: A Q^2 value greater than zero indicates predictive relevance [68]. Q^2 per endogenous construct shows that all Q^2 values signify predictive relevance, with magnitudes suggesting varying degrees of effects. This indicates that the model can predict new data points for endogenous variables.

5.9. Hypothesis Test

Based on the path analysis results, a summary of the hypothesis testing is presented:

H1: The legal environment (LE) positively influences the financial performance (FP) of SACCOS in Tanzania. (LE \rightarrow FP). Results: The path coefficient (β) was -0.098 . p -score = 0.027 ($p < 0.05$), the relationship is a significant (Table 7). Conclusion: Although significant, the relationship is negative, contradicting the hypothesized “positive relationship”. Therefore, H1, as stated (for a positive relationship), was rejected, although a significant (negative) relationship existed.

H2: Corporate governance (CG) positively influences the financial performance (FP) of SACCOS in Tanzania. (CG \rightarrow FP). Results: The path coefficient (β) was 0.966 , with a p -value of 0.000 ($p < 0.001$) (Table 7). Conclusion: This finding indicates a highly significant and strongly positive direct relationship. Therefore, H2 was strongly supported.

H3: Corporate governance (CG) mediates the association between financial performance (FP) and the legal environment (LE) in Tanzania. (LE $>$ CG $>$ FP). Results: The indirect path coefficient (β) was 0.944 , with a P -score of 0.000 ($p < 0.001$) (Table 9). This finding indicates a significant and positive indirect effect, confirming that corporate governance mediates this relationship. Therefore, H3 is strongly supported.

5.10. Discussion of Hypotheses

Hypothesis 1:

Hypothesis 1, which proposes that, legal environment (LE) positively influences the financial performance (FP) of SACCOS in Tanzania, is **not supported**. Regression analysis revealed a path coefficient (β) of -0.098 , with a p -value of 0.027 ($p < 0.05$) (Table 7). The relationship is not positive, but rather negative, although statistically significant. The opposite direction of quantification of path coefficients points in the negative direction between the variables [64] [86]. Thus, the null hypothesis that there is no association is rejected, and the hypothesis about the positive association is rejected as well to underline the fact that there is a significant negative association not only between financial performance and the legal environment, but also directly between these two variables.

This observation is opposite to that of prior studies. The research by [90], on 199 medium-sized enterprises in the manufacturing, trade, and service industries of Ethiopia concluded that there was a positive relationship between performance

results and the aspect of law. Indicatively, Gomez [48], as he observed at 29,839 companies and a period of 2005-2014, proved that the legal environment contributed greatly to the better financial performance of enterprises. The negative direct association observed in this analysis indicates that it is possible that certain facets of the Tanzanian legal environment present direct challenges or burdens that have some slight potential for adverse effects on the financial performance of SACCOS and that research needs to be conducted on the identities of these negative factors.

The negative relationship between the legal environment (LE) and financial performance (FP) of SACCOS in the Tanzanian study can be attributed to what the World Bank called legal and regulatory uncertainty, the complicated system of taxation, and unreasonable regulations for corporations, along with frequent alterations in tax laws and regulations [13]. Tanzania in particular has multiple regulatory agencies (TCDC, COASCO, TRA, BOT, and local councils); this creates an administrative burden for SACCOS to navigate multiple agencies, leading to financial drain [4] [13]. Furthermore, this is the reflection of the high tax system, the 30% corporate tax on profits, draining SACCOS financially [4].

Hypothesis 2:

The findings of the study clearly confirm Hypothesis 2, suggesting that Corporate governance (CG) positively influences the financial performance (PF) of SACCOS in Tanzania. The data regression outcome presents a strong path coefficient (β) of 0.966, with a highly significant p -value of 0.000 ($p < 0.001$) (Table 7). This indicates that corporate governance practices enhance, and when this happens, the financial performance of SACCOS greatly improves. Such findings are consistent with academic rules, as the path coefficients in the range between 0 and +1 define a positive relationship, and p -values less than 0.05, signifying a significant path [67] [71]. Therefore, we reject the null hypothesis, which states that there is no significant relationship between variables.

These findings align with studies conducted in different contexts. The study by [11], which was carried out in India on a sample of 88 SME companies, also found a strong positive correlation between corporate governance and the company's financial performance; also the finding was supported by a recent study in Kenya that used factor analysis and linear regression to find a strong positive correlation between corporate governance and financial performance [91]. Similar strengths and positive correlations between these variables were also observed in the study by [53] conducted in Ghana, which involved 23 banks as the sample. Nevertheless, the results of this study contradict those of another empirical study, as shared by [92] which found that the association between corporate governance and financial performance was either binary or inconsequential in most cases. This discrepancy indicates the situational application of corporate governance effects.

Hypothesis 3:

The study strongly supports Hypothesis 3, demonstrating that Corporate governance (CG) mediates the association between SACCOS financial performance (FP) and the legal environment (LE) in Tanzania. Analysis of the mediation effect

showed a remarkable transformation. The direct path coefficient between LE and FP is -0.098 ($p = 0.027$), indicating a significant but negative direct relationship. However, the indirect path coefficient from $LE \rightarrow CG \rightarrow FP$ is highly significant and strong positive 0.944 ($p < 0.001$) (**Table 9**). This signifies a full mediation effect, in which the mediating variable, corporate governance, entirely transforms the relationship from a direct negative to a strong indirect positive [87]. The indirect path's significantly improved p -value (from 0.027 to 0.000) and increased magnitude confirm the reinforcing role of corporate governance.

This observation concurs with those of earlier studies. The relationship between stock market returns and accounting data for firms in Ghana mediates the influence of corporate governance, in line with the fact that good corporate governance supports all positive business results [25]. The results of [93] are consistent with the role CG plays in insulating the legal environment effects on the performance of SACCOS by demonstrating that effective corporate governance practices defy the adverse effects of strict regulations on the performance of French listed companies. In addition, their study in emerging economies showed that strong corporate governance diminishes the adverse effects of poor institutional quality (such as the legal environment) on firm performance [94] which reflects the mitigation effect of corporate governance on SACCOS in Tanzania. On the other hand, publications such as [95] in Pakistan identified no strong mediating impact of corporate governance on other contexts, indicating that there may be contextual barriers to mediation, which underlines the relevance of institutional environments of SACCOS in Tanzania.

5.11. The Study's Contribution to Institutional Theory

Institutional Theory has long served as a foundational framework for understanding how external pressures-coercive, normative, and mimetic shape organizational structures and behaviours, often leading to isomorphism, or similarity among firms within a given field [96]. Traditionally, this perspective can imply a somewhat deterministic relationship where organizations passively adapt to their institutional environment to gain legitimacy and ensure survival. This study's findings, however, challenge and significantly extend this classical view by empirically demonstrating that within the challenging context of Tanzanian SACCOS, internal organizational agency, channelled through robust corporate governance, is the critical factor that determines whether institutional pressures lead to failure or success.

The study's primary contribution lies in its revelation of a complete mediation effect. While the direct relationship between the coercive pressure of the legal environment and financial performance is negative ($\beta = -0.098$, $p < 0.05$), this path is entirely subsumed and transformed by the mediating role of corporate governance, resulting in a powerful positive indirect effect ($\beta = 0.944$, $p < 0.001$). This finding moves Institutional Theory beyond a model of direct conformity. It introduces a more dynamic and strategic model where organizations do not merely

absorb or succumb to institutional constraints. Instead, they can actively employ internal structures as “institutional filters” or “strategic buffers”. As [94], suggested in emerging economies, strong internal governance can diminish the adverse effects of weak institutional quality. Our results provide robust empirical validation for this premise, showing that governance does not just mitigate but fully reverses the valence of the institutional pressure, transforming a potential threat into a catalyst for disciplined performance.

This leads to the second major theoretical extension: the elevation of internal governance from a beneficial attribute to an essential survival mechanism in high-pressure institutional settings. In stable, well-regulated environments, good governance may enhance performance incrementally. In contexts like Tanzania—characterized by regulatory complexity, compliance burdens, and fiscal uncertainty as noted by the World Bank [13], our findings suggest that such governance becomes non-optional. It is the core mechanism that allows SACCOS to navigate, interpret, and strategically comply with coercive demands without being crippled by them. This aligns with and extends the work of [93], who found that effective corporate governance helps firms defy the adverse effects of strict regulations. We demonstrate that in the most demanding settings, governance is the linchpin that decouples institutional pressure from organizational failure, thereby refining the theory’s understanding of organizational survival under duress.

Finally, the study contributes by highlighting the contingent nature of institutional effects. The stark contrast between our findings of full mediation and studies that found weak or no mediation [95] underscores that the predictive power of Institutional Theory is highly context-dependent. The theory is enriched by recognizing that the pathway from institutional environment to organizational outcome is not universal. It is critically mediated by the quality and capacity of internal structures, which vary across organizations and national contexts. This contingent view encourages a more nuanced application of Institutional Theory, one that must account for organizational-level agency and resilience, particularly in Sub-Saharan African business environments where formal institutions are often still evolving.

5.12. Proposed Conceptual Model

This study, grounded in Institutional Theory, proposes that the legal environment (an external institutional force) influences SACCOS’ financial performance. This influence is not direct; instead, corporate governance (internal structures) acts as a mediator. Effective corporate governance enables SACCOS to navigate legal challenges, foster legitimacy, and improve financial performance. This study empirically tests how the legal environment impacts outcomes through internal governance (see **Figure 4**).

Suggested Mathematical Model

LE [Legal Environment] --> |a: $\beta_1 = 0.977^{***}$ | CG [Corporate Governance

CG [Corporate Governance] --> |b: $\beta_2 = 0.966^{***}$ | FP [Financial Performance]
 LE [Legal Environment] --> |c: $\beta_3 = -0.098^{***}$ | FP [Financial Performance]

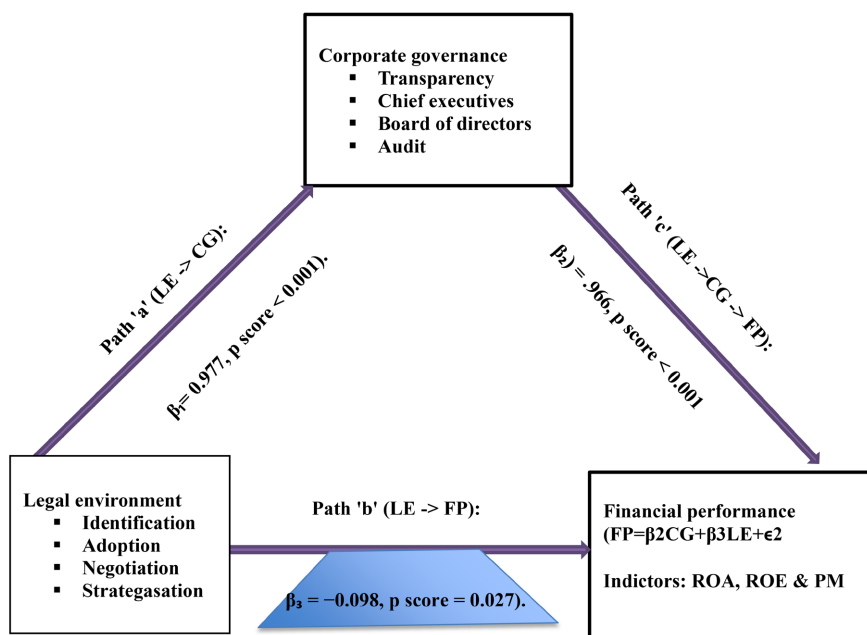


Figure 4. Suggested conceptual model diagram.

Sub Graph Mediation Analysis

Indirect Effect (“(a * b) = 0.944***”)

Total Effect (“Total Effect = c + (a * b) \approx 0.846”)

Mathematical Model: $FP = (\beta_2) \text{ beta_2CG} + (\beta_3) \text{ beta_3LE} + \text{epsilon_2} =$
 $FP = \beta_2 CG + \beta_3 LE + \epsilon_2$

The relationships observed in the study can be expressed mathematically as follows:

1) ϵ_2 is the variation in Financial Performance (FP) that is *not* explained by Corporate Governance (CG) and Legal Environment (LE) in the model.

2) Effect of Legal Environment on Corporate Governance: $CG = \text{beta_1LE} + \text{epsilon_1}$.

○ Here, (β_1) beta_1 represents the legal environment’s effect on corporate governance. The study found this to be significantly positive (β_1) beta = 0.977, $p < 0.001$).

3) Effect of Legal Environment and Corporate Governance on Financial Performance: $FP = \text{beta_2CG} + (\beta_3) \text{ beta_3 LE} + \text{epsilon_2}$.

○ Here, (β_2) beta_2 represents the effect of Corporate Governance on Financial Performance. This study found this to be significantly positive (β_2) beta_2 = 0.966, $p < 0.001$).

○ (β_3) beta_3 represents the direct effect of the Legal Environment on Financial Performance after accounting for the effects of Corporate Governance. The study found this to be negative (β_3) beta_3 = -0.098, $p = 0.027$).

4) Mediation Effect: The total effect of LE on FP is the sum of direct and indirect effects. Total Effect = $\beta_3 + (\beta_1 \times \beta_2)$.

Thus, Total Mediation Effect = $c + (a \times b) = (-0.098 + (0.977 \times 0.966)) \approx 0.846$.

6. Concluding Remarks and Future Directions

This study unequivocally demonstrates the pivotal role of corporate governance in enhancing the financial performance of SACCOS in Tanzania's Mbeya region. The findings highlight a strong positive relationship between robust corporate governance practices and improved financial viability. While the direct influence of the legal environment on financial performance was unexpectedly negative, this adverse effect is entirely mitigated and transformed into a significant positive impact when corporate governance acts as a mediator. This full mediation underscores that effective governance mechanisms are critical for SACCOS to navigate and thrive within challenging regulatory landscapes. Therefore, for SACCOS to improve their financial standing and ensure sustainability, policymakers and management must prioritize the establishment and rigorous adherence to sound corporate governance frameworks. This strategic focus is essential to safeguard member investments and positively contribute to the economic landscape of Tanzania.

Remarks

Based on these findings, the following recommendations are proposed: Strengthening corporate governance: SACCOS in the Mbeya region should prioritize continuous improvement and strict adherence to strong corporate governance practices. This includes transparent board appointments, dedicated board time, regular CEO-employee meetings, independent internal audits, and clear conflicts of interest reporting. Regulatory bodies and support organizations should develop tailored training programs and best-practice guidelines to enhance corporate governance capabilities. Investigate Legal Environment Nuances: Given the unexpected negative direct relationship between the legal environment and financial performance, policymakers and researchers should conduct deeper qualitative and quantitative investigations into the specific aspects of Tanzania's legal framework that may directly hinder SACCOS' financial health. This could involve examining compliance costs, bureaucratic inefficiencies, or specific regulatory provisions that create undue burden. Promote Governance as a Buffer: Stakeholders should emphasize the role of robust corporate governance as a buffer against the potential negative impacts of the legal environment. SACCOS should be encouraged to view strong governance not just as a compliance necessity but as a strategic tool to adapt to and thrive within their regulatory context.

Study Implications

This study offers several significant implications for various stakeholders: For SACCOS Management, the findings provide clear evidence that investing in and adhering to strong corporate governance practices is paramount for improving financial performance. Managers should actively pursue governance reforms and ensure their implementation across all operational aspects. For Regulators and

Policymakers: The research underscores the need for a nuanced approach to the legal environment governing SACCOS. Although a strong legal framework is essential, policymakers must consider the potential direct burdens and how corporate governance can mitigate these burdens. There is an opportunity to refine regulations to be more facilitative, perhaps by incentivizing good governance. **For Development Agencies and Support Organizations:** Organizations supporting SACCOS development should focus their capacity-building efforts on financial management and heavily on corporate governance training and technical assistance. This study demonstrates that improving governance can unlock these cooperatives' significant financial gains. **For Investors and Members:** The study assures that well-governed SACCOS are more likely to be financially stable and perform well, offering a more secure investment or membership environment.

Areas for Further Study

Building on the insights from this research, several areas warrant further investigation: **Qualitative Exploration of Legal Environment Impacts:** Future research could employ qualitative methods (e.g., in-depth interviews and focus groups) to understand *why* the direct relationship between the legal environment and financial performance is negative. This would help to identify specific legal provisions or implementation challenges that create burdens for SACCOS. **Moderating Effects:** Investigating potential moderating variables (e.g., SACCOS size, age, and specific sector within the SACCOS) on the relationships found in this study could provide a more granular understanding of the observed effects. **Longitudinal Studies:** A longitudinal study could track the financial performance and governance practices of the SACCOS over time, providing insights into the dynamic nature of these relationships and the long-term impact of governance reforms. **Comparative Studies:** Comparing SACCOS in Mbeya with those in other regions of Tanzania or even other East African countries could shed light on regional differences in legal environments and governance practices, and their respective impacts on financial performance. **Specific Corporate Governance Mechanisms:** While the study looked at overall corporate governance, future research could delve into the specific impact of individual corporate governance mechanisms (e.g., board independence, audit committee effectiveness, and shareholder activism) on financial performance.

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Ethical Approval

Ethical approval was obtained and respondents were requested to provide consent

prior to questionnaire administration. Participants were guaranteed confidentiality, voluntary participation, and upholding research integrity.

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Conflicts of Interest

The author declares no conflicts of interest.

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